

VZCZCXRO5277
PP RUEHTRO
DE RUEHTU #0516/01 1141515
ZNR UUUUU ZZH
P 241515Z APR 07
FM AMEMBASSY TUNIS
TO RUEHC/SECSTATE WASHDC PRIORITY 3065
INFO RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0890
RUEHAS/AMEMBASSY ALGIERS PRIORITY 7463
RUEHDO/AMEMBASSY DOHA PRIORITY 0415
RUEHLO/AMEMBASSY LONDON PRIORITY 1291
RUEHNC/AMEMBASSY NOUAKCHOTT PRIORITY 0878
RUEHFR/AMEMBASSY PARIS PRIORITY 1756
RUEHRB/AMEMBASSY RABAT PRIORITY 8372
RUEHTRO/AMEMBASSY TRIPOLI PRIORITY 0094
RUEHCL/AMCONSUL CASABLANCA PRIORITY 4087
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RUCPDO/USDOC WASHDC PRIORITY

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SUBJECT: TUNISIA ECONOMIC HIGHLIGHTS

REF: 2006 TUNIS 2848

2006 TUNIS 2639
2006 TUNIS 629

¶1. (U) This cable contains highlights of recent economic developments in Tunisia on the following topics:

- ¶A. IMF Urges Further Reform
- ¶B. Qatar Telecom Invests In Tunisia
- ¶C. Consumer Price Index Continues To Rise
- ¶D. Trade Deficit Grows, Industrial Production Up
- ¶E. GOT Sells Stake in Banque Franco-Tunisienne

IMF Urges Further Reform

¶2. (U) At the conclusion of his visit to Tunisia on April 6, IMF Deputy Managing Director, Murilo Portugal, urged the GOT to strengthen the financial sector, undertake further liberalization and improve the business climate to meet its economic growth targets and reduce the unemployment rate. These recommendations follow the January IMF assessment of the Tunisian banking system standards that noted the large share of non-performing loans (NPLs). The IMF stated that despite a sharp decline in NPLs in 2005, the ratio remains close to 20 percent. Portugal also noted that Most Favored Nation tariffs remain relatively high.

¶3. (SBU) Comment: The recommendations made by the IMF are neither new nor surprising. While the GOT has already taken steps to reduce the ratio of non-performing loans (Ref A), the persistence of high ratios indicates that previous efforts to tackle this problem have not gone far enough. Many of the reforms urged by the IMF, such as liberalization of the capital account, are already on the GOT agenda. However, the IMF's recommendations are unlikely to push the timeline for economic reform ahead of the current GOT schedule. End Comment.

Qatar Telecom Invests In Tunisia

¶4. (U) On April 4, following a meeting with Prime Minister Mohamed Ghannouchi, Sheikh Abdullah bin Mohammed bin Saud Al Thani, CEO of Qatar Telecom (Qtel), announced that Qtel plans to invest in "wimax" technology and data transmission systems in Tunisia. On March 3, QTEL purchased 51 percent of the Kuwaiti telecom operator Wataniya, which holds 50 percent of private mobile operator Tunisiana's capital. There are currently two telecom operators in Tunisia: majority state-owned Tunisie Telecom and Tunisiana.

¶6. (SBU) COMMENT: Qtel's investment in Tunisiana and plans for future investment indicate an increased openness to foreign and private sector investment in the telecommunications sector. In 2006, Emirati Tecom-DIG (Dubai Investment Group) purchased a 35 percent stake in state-owned Tunisie Telecom (Ref C) and is widely expected to purchase an additional 16 percent in the future. Qtel's interest in Tunisia also reflects that commercial relations between Qatar and Tunisia continue to grow despite the October 2006 closure of the Tunisian Embassy in Qatar (Ref B). END COMMENT.

Consumer Price Index Continues To Rise

¶5. (U) According to the Tunisian National Institute of Statistics (INS) March release, the Consumer Price Index (CPI) continues to rise, up 0.2 percent for Feb/March 2007, based largely on a rise in food prices. (NOTE: Food represents about 36.5 percent of Tunisian household basket compared to only an average of 14 percent in developed economies. END NOTE.) In 2006, the CPI recorded a 4.5 percent rise.

¶6. (SBU) COMMENT: Although the CPI rise is modest, Embassy contacts
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argue that the CPI fails to accurately capture inflation and that the real rate is higher. The basket of goods measured in the CPI contains many subsidized products and fails to account for Tunisian households' increased consumption of imported products. Even this limited rise in the CPI is unwelcome news to the GOT, which had hoped to bring inflation to a halt. Last year's 4.5 percent hike in the CPI has led to increasing complaints about the cost of living.
END COMMENT.

Trade Deficit Grows, Industrial Production Up

¶7. (U) INS statistics for the first quarter of 2007 show that despite strong textile exports, the merchandise trade deficit grew 27.9 percent over the same period in 2006. Clothing and textile exports were up 18.5 percent over the first quarter of 2006 -- a welcome sign after a weak 2006. Overall, merchandise exports for the first quarter of 2007 reached 4.7 billion dinars (US \$3.6 billion), up from 3.7 billion (US \$2.9 billion) in the first quarter of 2006. Export growth was outpaced by a rise in imports, up to 5.5 billion dinars (US \$4.3 billion) from 4.3 billion (US \$3.3 billion) in first quarter 2006. Industrial production for the first two months of 2007 is up 8.8 percent over the same period in 2006. The increase in industrial output is largely based on strong manufacturing, up 7.6 percent, and energy, up 15.5 percent. Mining production dropped 3.8 percent over the same period in 2006.

GOT Sells Stake in Banque Franco-Tunisienne

¶8. (U) The GOT announced that it will sell its majority stake in Banque Franco-Tunisienne. The GOT holds 78.16 percent of the bank, which has assets of 3.08 million euros (US \$4.2 million). Interested investors must submit their offers by May 2.

¶9. (SBU) Comment: This privatization marks the GOT's continued drive to sell off state assets for hard currency income. The July 2006 privatization of a 35 percent stake in Tunisie Telecom produced the

largest receipt to date (US \$2.3 billion) (Ref C), but privatizations have occurred in real estate, hotels, banking, and industry as well. The privatization receipts have been critical in allowing the GOT to reduce its level of external debt, an IMF recommendation that the GOT has adopted as part of its 11th Development Plan.
GODEC